

Message Text

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ORIGIN ARA-10

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APPROVED BY ARA/ECP:JO'MAHONY
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ARA/AND:SPATTERSON (DRAFT)
ARA/AND:TSONANDRES (DRAFT)
LA/SA:RBALLANTYNE (DRAFT)
TREAS/IA:ADRESS (DRAFT)
US/IDB:NCOAR (DRAFT)
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FM SECSTATE WASHDC
TO AMEMBASSY BOGOTA PRIORITY
AMEMBASSY CARACAS
AMEMBASSY KINGSTON

C O N F I D E N T I A L STATE 313925

E.O. 11652: GDS

TAGS: EFIN, IDB, EAID, ENRG, CO, JM

SUBJECT: IDB FINANCING OF OIL REFINERIES

REF: KINGSTON 05270, KINGSTON 05203, BOGOTA 8302,
BOGOTA 9065, AIDTO A-28

1. THIS CABLE REQUESTS EMBASSY/USAID VIEWS ON PROPOSED
IDB FINANCING OF OIL REFINERY CONSTRUCTION FOR AID IN
DEVELOPING THE USG POSITION IN THE IDB BOARD OF DIRECTORS.
IDB HAS FINANCED ONLY ONE REFINERY IN THE PAST, AND THAT
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WAS IN 1973 FOR BOLIVIA.

2. ON DECEMBER 28 NAC ADVISORY COMMITTEE DISCUSSED
THE DOLLARS 170 MILLION PROJECT FOR LUANA POINT OIL
REFINERY IN JAMAICA. THIS WILL BE DISCUSSED AGAIN ON
JANUARY 4. A PROPOSED IDB LOAN OF DOLLARS 42 MILLION FROM

VENEZUELA TRUST FUND WOULD PROVIDE DOLLARS 35 MILLION FOR EQUITY AND DOLLARS 7 MILLION AS DEBT CAPITAL FOR THIS PROJECT. ADDITIONAL PROPOSED FINANCING INCLUDES A GOJ EQUITY CONTRIBUTION OF DOLLARS 37 MILLION, DOLLARS 40 MILLION FROM CANADIAN EXPORT DEVELOPMENT CORPORATION AND THE REMAINDER LARGELY FROM SUPPLIER CREDITS. NO IDB ORDINARY CAPITAL OR FSO IS ANTICIPATED. THE CONCERNED USG

AGENCIES ARE GENERALLY AGREED THAT THE PROJECT OFFERS MARGINAL BENEFITS AT BEST. THE IDB PROJECT REPORT INDICATES:

A. A LOW PROJECT ECONOMIC RATE OF RETURN (7.3 PERCENT) WHICH DEPENDS ON A VENEZUELAN SUBSIDY IN THE FORM OF OIL CREDIT TERMS TO REACH IDB MINIMUM STANDARD OF TEN PERCENT. THE RATE OF RETURN IS VERY SENSITIVE TO THE RELATIONSHIP BETWEEN THE PRICE OF VENEZUELAN CRUDE AND THE PRICE OF FUEL OIL.

B. EVEN WITH A VULNERABLE HIGHLY LEVERAGED FINANCIAL STRUCTURE, THE PROJECT WOULD HAVE ONLY A MARGINAL FINANCIAL RETURN AND THE COMPANY IS PROJECTED TO HAVE A CASH FLOW DEFICIT UNTIL 1986.

C. THE NET PRESENT VALUE (DISCOUNT AT 12 PERCENT) OF FOREIGN EXCHANGE GENERATED OF THE 20 YEAR LIFE OF THE PROJECT IS ESTIMATED AT DOLLARS 21 MILLION.

D. WHILE OVER 1,000 JOBS WOULD BE GENERATED DURING THE CONSTRUCTION PERIOD, THE PROJECT IS ESTIMATED TO CREATE

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ONLY 200 TO 500 FOR PLANNED OPERATION.

AGREEMENT HAS NOT YET BEEN REACHED AS TO THE MOST APPROPRIATE USG STANCE WHEN THE JAMAICAN REFINERY PROJECT IS DISCUSSED IN THE IDB BOARD OF DIRECTORS MEETING JANUARY 12.

3. THE NAC ADVISORY COMMITTEE ON JANUARY 4 WILL CONSIDER A DOLLARS 29.5 MILLION IDB ORDINARY CAPITAL LOAN FOR A REFINERY AT CARTAGENA IN COLOMBIA. WE ANTICIPATE SERIOUS ECONOMIC PROBLEMS WITH THE LOAN, NOT LIMITED TO THE GOVERNMENT'S GASOLINE SUBSIDIZATION POLICY, AND WITH THE JUSTIFICATION FOR THIS USE OF DEVELOPMENT FUNDS TO FURTHER EXPAND THE REGION'S REFINING CAPACITY. FURTHERMORE, IN THIS CASE, WE UNDERSTAND THAT OTHER FINANCING MAY BE POSSIBLE TO OBTAIN. DISCUSSIONS WITH THE BANK OR WITH OTHER DIRECTORS COULD BE INFLUENTIAL IN DETERMINING THE OUTCOME.

4. WE WOULD APPRECIATE KINGSTON AND CARACAS COMMENTS
ON PARAGRAPH 2 AND BOGOTA COMMENTS ON PARAGRAPH 3 IF
POSSIBLE BY C.O.B. JANUARY 3.
ROBINSON

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